Journal of Business Ethics (2009) 85:535–544
DOI 10.1007/s10551-009-0213-y

Toward Dynamic Corporate Stakeholder Responsibility

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From Corporate Social Responsibility Toward a Comprehensive and Dynamic View of Corporate Stakeholder Responsibility

ABSTRACT. Today, sustainable relations with a broad range of key stakeholders are not only important from a normative business ethics perspective, but also from an entrepreneurial viewpoint to allow and support the long-term survival of a firm. We will argue that the traditional conception of a firm's corporate social responsibility does not reflect this view and that a comprehensive and dynamic conception of a firm's responsibilities is necessary to map the reality of business practice and to manage the challenges implied by sustainability. We think that distributive justice, that is the way in which firms involve their stakeholders in their wealth creation and dissemination processes, provides a comprehensive understanding of corporate responsibilities. Concerning procedural justice, we will discuss how firms involve stakeholders in their strategic processes according to their contribution to wealth creation. In the course of the article, we will propose a framework along with three design principles that can be used for shaping dynamic and comprehensive corporate responsibilities, and which thereby allow a sustainable procedure for changing business and non-business environments.

KEY WORDS: corporate stakeholder responsibility, CSR, distributive justice, procedural justice, stakeholder view, wealth creation

Introduction and goals

Since the 1990s, the importance of Corporate Social Responsibility (CSR) in both the academic and the business world has grown significantly as several numbers illustrate. A recent Google search for the keyword ''corporate social responsibility'' retrieved more than 3,750,000 sites, Amazon.com lists almost 7,000 books on the subject, and according to Vogel (2005) more than 2,000 firms worldwide now issue reports on their CSR practices. Or as the magazine Economist already put it in 2004: ''CSR is thriving. It is now an industry in itself, with full-time staff, websites, newsletters, professional associations and massed armies of consultants'' (2004, p. 53). In a keynote speech during the 2004 annual colloquium of the European Academy of Business in Society (EABIS), R. Edward Freeman addressed and criticized the popular CSR concept (e.g., Carroll, 1991). Therein his arguments were closely related to the separation thesis. Freeman (1994) formulated this hypothesis in response to Friedman's (1970)

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argument that the discourse of business and the discourse of ethics can be separated so that business decisions have no moral content and moral decisions have no business content. However, Freeman rejected this thesis in several articles (e.g., Freeman, 1994; Freeman et al., 2004; Werhane and Freeman, 1999). In his speech at the EABIS colloquium in 2004, he raised three main arguments:

First, the CSR concept provides no natural and distinguishable responsibility categories to effectively classify corporate behavior. This refers to the fact that many corporate decisions may fall into more than one responsibility category. Freeman (2004, p. 1) describes this with the example of how difficult it is to relate a simple business decision such as hiring new personnel to either economic or ethical (or social) responsibilities. Second, he points out that there is a risk that CSR is being treated as a moral substitute to compensate for harmful (irresponsible) activities. Third and most importantly, he sees CSR as contributing to some tendencies in our society to separate ethics from business and vice versa. Consequently, Freeman (2004, p. 3) comes to the conclusion that it is more useful to ask ''how does a firm treat its stakeholders?'' instead of asking if the firm is socially responsible.

In this article, our goal is to contribute to a possible answer to Freeman's question of how to treat corporate stakeholders in a responsible or, in other words, sustainable manner. In order to do so, we will develop three *design principles* that can be used for taking a comprehensive corporate stakeholder responsibility perspective. Consequently, we will focus on the concept of *corporate stakeholder responsibility* and not on responsibilities that stakeholders owe to the firm (e.g., Beaulieu and Pasquero, 2002; Windsor, 2002) or on what Dentchev and Heene (2004) call stakeholder responsibilities for sustainability that include not only corporate responsibilities but also those of customers, scientists, information intermediaries, and public policy makers.

Apart from the introduction, the article is divided into four sections. In the next section ''From CSR toward corporate stakeholder responsibility'', we will expand on Freeman's (2004) critique to explain why we think that CSR has outlived its usefulness, and why we think that it is more fruitful to look at corporate stakeholder responsibilities from a wealth creation and wealth dissemination perspective.

Following this line of argument, we will introduce the stakeholder view framework (e.g., Mattingly, 2004b; Post et al., 2002; Sachs and Rühli, 2004; Walsh, 2005) in the article's third section. We will use this framework because of its comprehensive logic. It combines the resource-based and the industry-structure view of strategic management with a socio-political perspective and thereby contributes to a comprehensive view on a firm's wealth creation and dissemination process that also enables a definition of comprehensive corporate responsibility that is compatible with the concept of sustainability. We will argue that considering stakeholders as those individuals and groups that contribute to the firm's wealth-creation process (see Post et al., 2002) can serve as a useful foundation for thinking about corporate responsibilities.

In the fourth part, we will offer what we think are three basic principles for designing corporate stakeholder responsibilities from a wealth-creation perspective. These principles – which are derived from the stakeholder view framework – are *stakeholder specificity*, the principle of *fair wealth distribution*, and *time and situation specificity*.

In the fifth and last part of the article, we will discuss in more detail the proposed principles and our conceptualization of corporate stakeholder responsibility by drawing some implications. Finally, we will conclude by depicting some avenues for future research.

From CSR toward corporate stakeholder responsibility

In the past, the CSR approach was useful to promote responsibilities other than purely economic ones by emphasizing that there may be also some form of ethical or social responsibilities. Furthermore, interesting insights can be gained by analyzing – from different perspectives – what firms should (morally) be responsible for. These perspectives translate into the four responsibility categories of Carroll's (1991) CSR pyramid, namely economic responsibility, legal responsibility, ethical responsibility, and philanthropic responsibility. This thinking in rather abstract responsibility categories is only partially suited to understand real-world situations for three main reasons:

First, the categories suggested by the CSR concept are not distinguishable as most decisions of businesses are not purely economic, legal, ethical, or philanthropic. For example, Wood (1991) criticized Carroll's (1991) approach of steps and phases of responsibility as she regards the responsibilities defined by Carroll as delimited and therefore also as isolated domains. According to Wood, Carroll succeeds in differentiating the interactions between firm and society, but he also neglects their interconnectedness which would be required in reality. For example, a decision to hire new employees can – at the same time – make economical and ethical sense (Freeman, 2004), and likewise a philanthropic investment can also contribute to a firm's economic responsibility (Porter and Kramer, 2002). Therefore and agreeing with Freeman (1994) and others (e.g., Agle et al., 2008; Freeman et al., 2004; Schwartz, 1997; Werhane and Freeman, 1999; Wood, 1991), we aim to overcome the artificial separation of economic and social responsibilities to which the CSR approach contributes.

Second, another argument raised by Freeman (2004) against the CSR concept comes in the form of a risk that business could treat its CSR activities as moral substitutes to compensate for other irresponsible activities. While we again agree with Freeman's perception that there is a danger of business using CSR only as a public relations tool or, even worse, as a moral substitute or add-on, we think that this critique rather applies to its implementation in business practice than to the concept itself. Corporate scandals exemplify this issue in flashing colors as cases like Enron remind us.

Third, we argue that the general responsibilities implied by the CSR approach can neither account for the specificity of an individual firm nor for the specific stakeholder network in which it is embedded. For example, many responsibilities to employees do differ for a firm that is reducing its workforce during a merger compared to a firm that is hiring in a stage of growth.

Summing up, we think the CSR concept is challenged by its usefulness as it (a) provides artificial categories for evaluating corporate behavior and thus contributes to a separation rather than to an integration of business and ethics, (b) includes the risk of companies using CSR as a moral add-on, and (c) does not sufficiently take into account the situations with which managers are confronted. Therefore, we propose that it is more interesting to look for what and whom firms *are* responsible within a ''creating value for stakeholders approach'' (Freeman, 2004, p. 3).

The stakeholder view framework

Following the line of argument developed in the previous section, we will now refer to the stakeholder view framework (e.g., Abe and Shimizutani, 2005; Buono, 2003; Caldwell, 2004; Lamont, 2004; Mattingly, 2004a, b; Post et al., 2002; Sachs and Rühli, 2004; Walsh, 2005). Apart from its comprehensiveness, we use the stakeholder view framework mainly because of two reasons, namely its focus on wealth creation and its normative core that is compatible with sustainability.

The wealth creation focus

The stakeholder view emphasizes that the linkages between the corporation and its multiple constituencies are in many ways important vehicles for creating, sustaining, and enhancing the corporation's wealth-creating capacity. Organizational wealth (Sveiby, 1997), therefore, is the goal and capacity of an organization to create value in the long run. It is enhanced whenever the desired output of the firm is increased without any concurrent increase in the amount of real resources used and/or risks generated, or when resource used and/or risks are reduced without any parallel decrease in the desired output (Dyer and Singh, 1998; Post et al., 2002; Sveiby, 1997). In its relationships with stakeholders, the corporation may achieve these results directly – for example when favorable customer relations increase brand loyalty – or indirectly, when the general operating environment is improved through increased trust among critical parties. Therefore, a firm is ''an organization engaged in mobilizing resources for productive uses in order to create wealth and other benefits (…) for its multiple constituents, or stakeholders'' (Post et al., 2002, p. 17). Thereby, stakeholders are defined as "all individuals and constituencies that contribute, either voluntarily or involuntarily, to its wealth-creating capacity and activities, and are therefore its potential beneficiaries and/or risk bearers" (2002, p. 19). Based on this definition, four categories of stakeholders are distinguished:

- benefit providers;
- benefit receivers;
- risk providers; and
- risk bearers.

This comprehensive stakeholder perspective not only considers resource and market based stakeholders but also social and political stakeholders (Walsh, 2005). It is assumed that all the entities that fit into one or more of the above-mentioned categories can contribute to strategizing concerning resource bases, industrial structure, and socio-political concerns (see also Tables I and II for examples). It is important that this wealth-creation process is not only viewed in a one-sided fashion from the corporation's internal perspective (i.e., stakeholders as benefit or risk providers) but also from the perspective of all stakeholders contributing (i.e., stakeholders as benefit receivers or risk bearers). In the stakeholder view the corporation is only legitimized in its existence if it creates wealth for and with all its strategic stakeholders (e.g., Sachs, 2004). This perspective is similar to a recent approach by Caldwell and Phillips (2005), who for example argue in favor of an increased responsibility toward suppliers because of the firm's dependency on these and other partners in its value-chain.

The normative core focus

The stakeholder framework's normative core is based on the idea of property rights as one of the most important principles of our society (e.g., Alchian and Demsetz, 1972; Asher et al., 2005; Becker, 1978; Blair, 1995, 2005; Blair and Stout, 1999; Coase, 1960). The stakeholder view broadens the idea of property rights not only to a financial but also to all those that contribute (voluntarily or non-voluntarily) to a firm-specific investment such as knowledge or networks. For example, Blair and Stout (1999, p. 261) claim to focus more on the importance of intellectual capital: "Viewing the firm as a bundle of assets owned by shareholders also seems odd once we recognize that one of the key

TABLE I

Creation of wealth and stakeholder involvement in an economic foundation of the stakeholder view concerning the principle of procedural justice

Stakeholder groups (examples)	Contributions to wealth creation	Stakeholder involvement regarding strategic responsibility process
Resource-based view		
Shareholders	Capital expenditure, capital risk bearer	Voting power at general assembly
Employees	Benefits from human capital; firm-specific investments	Forum for information and participation of employees (sounding board)
Industry structure view		
Customers/users	Risks of not being served anymore due to corporate focusing	Round tables for product and service innovations (lead users)
Suppliers	Risks due to specific differentiation of suppliers and resulting dependence on firm	Involvement in product and service development processes
Socio-political arena		
Community	Bearing risks due to pollution and contamination	Involvement of representatives in strategic sustainability boards
Government	Benefits by tax reductions due to increasing location attractiveness	Development of new jobs

TABLE II

Creation and dissemination of wealth in an economic foundation of the stakeholder view concerning the principle of distributive justice

Stakeholder groups (examples)	Contributions to wealth creation	Wealth dissemination
Resource-based view		
Shareholders	Capital expenditure, capital risk bearer	Residual benefit; Shareholder value
Employees	Benefits from human capital; firm-specific investments	Education, employability, bonus systems, motivation etc.
Industry structure view		
Members of supply chain	Contribution to network efficiency, cooperation and performance	Procurement conditions, compensation of supplier risk and knowledge contribution
Joint venture-partner and alliances	Complementing of resources, stabilizing of market position	Benefit and profit sharing, compensation for alliance risk
Socio-political arena		
Community	Bearing risks due to pollution and contamination	Corporate philanthropy, financial and non-financial compensations for risks borne
Non-government organizations (NGOs)	Information on emerging social risks	Knowledge exchange, transparency; considerations of other stakeholders' expectations

assets a corporation uses in production is 'intellectual capital' – that is, the knowledge and experience residing in the minds of its employees, rather than the hands of its shareholders''. Consequently, Asher et al. (2005, p. 3) argue that ''a stakeholder perspective indicates that it is no longer tenable to regard the shareholders as the only residual claimants, where residual claimants are defined as persons or collections whose relationships to the firm give rise to a significant residual interest in the firm's success and failure''. This has – in fact – important implications for wealth creation and wealth distribution processes as well as for corporate governance and control by concluding that both shareholders as well as other stakeholders are relevant. We think that such a consideration of stakeholders as those individuals and groups that contribute to the firm's wealth-creation process can serve as a useful (normative) foundation for corporate responsibilities. The corporation is only legitimized in its existence and only fulfils its responsibilities if it creates wealth for and with its stakeholders. These arguments imply that corporate responsibilities should integrate both the wealth creation and wealth dissemination part as Phillips et al. (2003, p. 487) claimed as well: ''Stakeholder Theory is concerned with who has input in decision making as well as with who benefits from the outcome of such decisions''. This relates to the consideration of procedural justice (Freeman, 1984) and of distributive justice (Becker, 1992; Donaldson and Preston, 1995).

Procedural justice means integrating the values of all important stakeholders into the development and implementation of a firm's strategy. ''Not only values must be taken into consideration when formulating strategy, but if the strategy is to be implemented the values of those affected by it must also be factored into the equation'' (Freeman, 1984, p. 89). In the stakeholder view, the stakeholders are integrated in the strategic processes by either providing or receiving benefits, or providing or bearing risks. Table I might give some examples of what procedural justice means for different stakeholder groups. As already mentioned above, all stakeholders might contribute to all three different strategic contents (i.e., resource-based, industrial structure, and socio-political).

Adopting the idea of distributive justice requires criteria for determining which stakeholders get which part of the outcome of the corporation's wealth-creation process (Donaldson and Preston, 1995). In the stakeholder view, the stakeholders ought to participate in the value dissemination according to their contributions to the benefits and to their adoption of risk. Similar to the shareholders who are compensated for the use of their capital and the risk involved, all other relevant stakeholders ought to be included in the value dissemination (cf. Blair, 1995). After the expenditures (e.g., fixed salaries for employees) have been compensated according to the complete contracts, a residual profit emerges from which – according to the distributive justice principle – not only the shareholders but also all other stakeholders should benefit. In reality, the assessment of all these values is not necessarily predetermined as incomplete contracts do exist. Rather, scopes of discretion exist as seen in determining the compensation of shareholders. Thus, the dissemination of residual profits to all stakeholders is subject to a scope of discretion. Therefore, the normative core of corporate stakeholder responsibility considers those who contribute voluntarily or involuntarily to the firms' wealth creation to thereby be legitimized to earn a part of the residual benefit, and considers involving stakeholders in the strategic processes.

Table II briefly illustrates different aspects of wealth creation and dissemination in the stakeholder view.

The presented normative core based on a broad understanding of property rights matches central ideas of the sustainability concept for the following reasons. The classic definition for sustainable development formulated by the World Commission on Environment and Development Report, 'Our Common Future', also known as the Brundtland report is a "development that meets the needs of the present without compromising the ability of future generations to meet their own needs" (WCED, 1987, p. 43). If this definition that initially addressed mainly the ecological dimension of sustainability is enlarged by economic and social sustainability (e.g., Dentchev and Heene, 2004), then the idea of property rights comes very close to such an idea of sustainable development as integrating environmental, economic, and social sustainability. The important element that connects the two concepts of stakeholder view and sustainability is the fact that property rights exist not only between the firm and stakeholders who contribute voluntarily but also with those who contribute involuntarily such as local communities or the natural environment in which the firm operates.

Designing corporate stakeholder responsibilities

In the following paragraphs, we will develop three design principles that we think are appropriate for defining corporate stakeholder responsibilities.

The principle of stakeholder specificity

A specific stakeholder status as either a benefit provider/receiver and/or as a risk provider/bearer constitutes specific responsibilities for the firm. Therefore, this stakeholder status or position implies potentially different responsibilities for each stakeholder and potentially for each type of stakeholder relationship. Therefore, as not to intentionally destroy but to create organizational wealth, responsibilities to stakeholders should be designed so that risks for all stakeholders – if possible – are reduced and benefits are increased in accordance with their specific states. This principle impacts the firm's strategy within its development as well as its implementation, and corresponds to the procedural justice to treat the firm's strategic stakeholders in a responsible manner.

The principle of fair wealth distribution

All stakeholders who make (voluntarily or not) firm-specific investments either by providing benefits or bearing risks should have the right of residual claim analogously to the shareholders' firm-specific investment, and the right of residual claim due to the fact of their risk bearing function. It appears from our analysis that so as not to jeopardize future contributions of stakeholders, the dissemination of organizational wealth should be fair and reflect the fractions of each contributing stakeholder to the firm's wealth creation. This principle considers financial as well as intellectual contributions of stakeholders and corresponds to distributive justice.

The principle of situation and time specificity

Responsibilities should not only be stakeholder-specific and designed to reflect the type of stakeholder relationships, but they should also account for the current situation the firm faces. Most firms are facing changing or even turbulent environments, and as a consequence, a firm's wealth-creation process has to be continuously adapted. We argue that exactly the same must apply to the firm's responsibilities. The reason for this requirement is because a change in the firm's wealth-creation process is often either triggered by or results in changes in the firm's stakeholder network. This principle emphasizes the dynamics of corporate stakeholder responsibility and corresponds to procedural and distributive justice.

From principles to a dynamic framework

Together with the stakeholder view framework and its normative core, we think that these three principles offer building blocks for a generic and dynamic stakeholder responsibility framework, and thereby represent a possible answer to Freeman's (2004, p. 3) initial question for what and whom a firm is responsible "from a creating-value for stakeholders approach". In Figure 1, we combined the three principles on the one hand with the idea of the stakeholder view of using the wealth-creation process for determining a stakeholder's status (this corresponds to the "who" element in Figure 1). On the other hand, the strategic content of corporate stakeholder responsibilities is defined by applying the constructs of procedural and distributive justice to the different types of stakeholder relationships (this corresponds to the "what" element in Figure 1). And finally, the three design principles translate to the question of "how" responsibilities should be implemented.

It is important to note that we argue for dynamic responsibilities toward stakeholders because these responsibilities change when either the corporate wealth-creation processes evolve and/or responsibilities are implemented. Consequently, the arrows in Figure 1 connect the three elements (who, what, and how) to these dynamics.

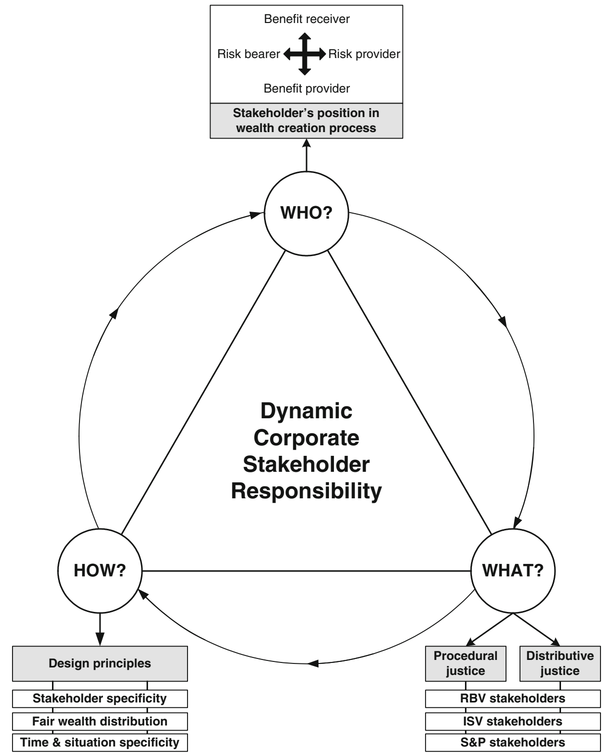

Figure 1. Dynamic corporate stakeholder responsibilities.

Discussion and implications

Implications of the three principles for business practice

The first principle of stakeholder specificity implies that there are no general responsibilities that apply to every firm in the same manner (as suggested by the CSR approach). Rather responsibilities toward stakeholders depend on the characteristics of the firm's value creation process and on the ways a specific stakeholder contributes to it. This implies determining stakeholder responsibilities and elaborating the possibilities for stakeholder involvement in a strategic process.

Concerning the second principle of fair wealth distribution, we think that fulfilling this principle is additionally essential in order to motivate stakeholders in the long-run to participate in the firm's wealth-creation process. Firms that violate this principle, for example by distributing most of the wealth to only one or only a few stakeholder groups (e.g., to the shareholders and/or management), may tend to lose both legitimacy and willingness from other stakeholders to participate. It seems important to note that such benefits must not always appear in the form of direct financial benefits, but they can also take the form of lower prices for products and services, innovative solutions, increased accountability and transparency, and education and knowledge etc. The recommendation that stakeholder responsibilities should be designed to reduce risks and increase benefits may not always be possible to achieve. While we acknowledge this, we propose that a firm must at least compensate those stakeholders whose risks are increased with an appropriate amount of (increased) benefits. Likewise, if a firm decreases the benefits for a specific stakeholder group it should also reduce the risks borne by this group (e.g., by transferring the risks to another group that is able to carry the risks).

The third principle of situation and time specificity is necessary to transform our essentially static concept of corporate stakeholder responsibilities into a dynamic one. The dynamics are required in order to adapt a firm's responsibilities to changing environments and to shifting stakeholder demands. This emphasizes the firm's task to monitor changes in its stakeholder network and possible influences regarding its responsibilities. Additionally, by including a dynamic element with the second principle, we forestall critics who might challenge the other two principles for being too static.

We think that our approach to corporate stakeholder responsibility bears several advantages for business practice. First, it allows business to identify to whom it should be responsible from a wealth-creation perspective. Second, the principles we have suggested may serve to design such responsibilities in a comprehensive, dynamic, and sustainable manner. And third, we think that implementing stakeholder responsibilities in such ways can help business to motivate stakeholders to cooperate. Cooperation with stakeholders contributes to long-term success in the marketplace.

Scientific implications

Regarding the scientific implications of our concept, we have shown that adopting the stakeholder view framework can help to produce firm-specific answers to the question ''what does a business stand for?'' and respectively ''how should it treat its stakeholders?'' Hereby, we conclude that our corporate stakeholder responsibility concept contributes to closing the three gaps mentioned at the beginning of the article. First, it better reflects the specific responsibilities firms are confronted with in-business practice, second it reduces the issue of responsibility being treated as a moral add-on, and third, it supports the rejection of the separation thesis. Additionally, it has the advantage of not enforcing a standard answer for all businesses and of being dynamic rather than static.

Avenues of future research

The first principle (stakeholder specificity) further challenges the integration of corporate stakeholder responsibility in existing concepts of strategic management, as already claimed by Freeman (1984) and recently claimed by the stakeholder theory of the firm by Asher et al. (2005). This asks for how traditional approaches to strategic management approaches must be modified in order to address specific stakeholder-firm constellations over time.

A problem of the second principle (fair wealth distribution) is obviously how the stakeholders' contributions can be measured in order to determine the appropriate wealth distribution. This is a classical team production problem (see Alchian et al., 1972; Blair, 1995) of assigning a given output to multiple team members in order to determine their contributions. While we acknowledge that this is a weakness of the second principle and that it is neither possible nor useful to determine the inputs of each stakeholder in quantitatively exact numbers, we think that qualitative judgements about benefits and risks are still possible. As mentioned earlier, this is already done by the managerial decisions concerning the values given to the shareholders or in designing compensation plans for managers or employees.

The third principle (time and situation specificity) asks for an evolutionary theoretical foundation of the corporate stakeholder responsibility in the sense that the prior responsibilities may influence the development of new responsibilities. See Sachs (2000) for a detailed discussion of evolutionary concepts applied to the responsibility of the corporation.

All these principles should be evaluated by an empirical investigation in a next step. Owing to their comprehensiveness, we would propose to base it on longitudinal comparative case study analysis (e.g., Eisenhardt, 1989; Yin, 1994).

Perceiving the limitations of our approach, we think that the orientation toward a purely economic normative foundation – even based on the enhanced property rights approach – is also limited, particularly if predominantly societal concerns influence entrepreneurial operations. The discussion concerning the bird flu virus might illustrate such corporate stakeholder responsibility, as Roche is the only producer of a possible medication in a case of a pandemic. Thereby, the establishment of the truth and its justification is paramount and not only economic wealth creation (Maurer and Sachs, 2005; Sachs et al., 2009). Consequently, a pluralistic approach would be needed as for example proposed by Calton (2006). Such an approach would both support the compatibility of our concept with sustainability research and the need of a cooperative means of negotiating pluralistic cognitive frames in a multi-stakeholder setting. This could help to solve the problem that there must exist representative stakeholders who stand for the natural environment in order to achieve not only economic and social sustainability but also ecological.

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